Record Request DTE-2

Please quantify the impact of lowering the cost of capital included in the working capital calculation for the Colonial and Essex service areas. Please show the net impact of the increased net lag and decreased cost of capital in the working capital calculation.

Response

Please see the attached analysis detailing the impact resulting from the change in lead/lag days and the reduction in the cost of capital on the working capital allowance based on the November 2003 cost of gas filings. There are three changes that impact the working capital allowance. First the lead lag studies for each Company were calculated using different time periods, i.e., Boston used data from November 2002 through April 2003, Essex used data from January 2002 through December 2002 and Colonial used data from January 1992 through December 1992. By standardizing the period used to calculate the working capital based on the November 2002 through April 2003, the net lead lag days used in the working capital calculation for Essex increased from 14.53 days to 27.52 days while the working capital calculation for Colonial increased from 15.31 days to 24.38 days. As a result, the actual working capital allowance for Essex and Colonial increased by $209,000 and $496,000 respectively. (Boston's working capital was already calculated using this time period). Secondly, the Company proposed to use Boston Gas's cost of capital structure from D.T.E. 03-40 in the combined working capital calculation. The cost of capital of 9.08% from D.T.E. 03-40 is less than the Essex cost of capital of 10.67% and Colonial's cost of capital of 10.24%. As a result, the Essex and Colonial working capital allowance decreased by $24,000 and $113,000 respectively. Also, please note that the working capital allowance for Boston decreased by $392,000 because the November 2003 cost of gas filing included the D.P.U. 96-50 cost of capital structure. Finally, the working capital allowance for each company changed as a result of using a 35.2 combined net lead lag days instead of the individually calculated values. As a result, the working capital allowance for Boston decreased by $787,000, while the working capital allowance for Essex and Colonial increased by $124,000 and $592,000 respectively. In total, these changes resulted in an overall decrease in the working capital allowance of $1,179,000 for Boston and an overall increase of $308,000 for Essex and $975,000 for Colonial.

These variances will result in small bill impacts for customers. For example, a typical residential heating customer using 1,460 therms per year, will experience a $.21 per month decrease for Boston customers, and a $.59 and $.56 per month increase for Essex and Colonial customers respectively.